NAMA.
Serving the Vending, OCS and Foodservice Management Industries

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Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

FAX 202-452-3819

Re: Docket No. OP-1164

Dear Ms. Johnson:

Please find enclosed the Comments of the National Automatic Merchandising Association concerning The Board of Governors of the Federal Reserve System's Federal Reserve Bank Currency Recirculation Policy.

Sincerely,

Tom McMahon

Thomas E. McMahon

Enclosures

Cc: Senator Richard C. Shelby, Chairman, Committee on Banking
Rep. Michael G. Oxley, Chairman, Committee on Financial Services
Rep. Peter T. King, Chairman, Subcommittee on Domestic Monetary Policy

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Serving the Vending, OCS and Foodservice Management Industries

Comments of the National Automatic Merchandising Association
Concerning the Board of Governors
Of the Federal Reserve System's
Federal Reserve Bank Currency Recirculation Policy

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Docket No. OP-1164

Introduction Thank you for the opportunity to comment on the Federal Reserve Bank Currency Recirculation Policy.. The Currency Recirculation Policy was annouriced in the Federal Register of October 14th, 2003. (Volume 68, No. 198.)

The National Automatic Merchandising Association (NAMA) represents some 1800 food and beverage vending companies. These companies sell food and beverages to millions of Americans everyday through vending machines placed in our nation's factories, offices, hospitals, schools and government buildings, as well as motels, airports and other locations,

NAMA's Interest In The Proposed Policy Thirty years ago, no food or beverage vending machine in America accepted currency. Today, because of inflation in the intervening years, and because no adjustments to ow coins and currency have been made to account for inflation, virtually every one of the estimated 7 million food or beverage vending machines accepts currency. Not only do almost all vending machines accept $1 bills, but increasingly, these machines also accept $5 bills, and to a lesser extent, $10 and $20 bills. The fitness of U. S. currency, particularly lower denomination currency, is therefore a matter of great importance to our industry.

NAMA is concerned that the proposed Federal Reserve Bank Currency Recirculation Policy could lead to more unfit currency in circulation. Fit currency is almost always accepted by vending machines. Sales are made, Unfit currency tends to be rejected. Sales are lost. If the Proposed Recirculation Policy degrades the quality of currency in the hands of the public so that a mere ½ of 1% of the industry's estimated $30 billion of annual sales are lost, the result will be $150 million of lost sales.

<u>NAMA's Concerns</u> According to the Background Section of the Proposed Recirculation Policy, depository institutions in recent years have been increasing the practice of shipping both fit and unfit currency back to Federal Reserve Banks, availing themselves of the Federal Reserve Banks' free service of fitness testing and sorting. To curtail this practice, and encourage banks to re-circulate more currency, the Federal Reserve is proposing a two-part recirculation policy:

First, some commercial banks will be authorized to establish custodial inventory accounts, accounts in which Federal Reserve Bank cash will be held in the vaults of the commercial banks. As the Board points out, while a bank's vault cash does not earn interest, a bank's cash deposits with the Federal Reserve can earn a positive return.

We are concerned that the custodial inventory account may serve as an incentive to banks to place both fit and unfit currency into the custodial account, paying this currency out to customers later in the week without fitness testing, And, even if cash in the custodial inventory account is tested for fitness by the bank, banks' fitness standards are thought to be lower than those of Federal Reserve Banks. This may be particularly true in the case of lower denomination bills, which the vending industry and its customers are so dependent on. (We note, on page 9 of the Proposed policy, footnote 15, which states: 'Depository institutions indicate that their customers are willing to accept a wider range in the quality of $5 notes than for the higher denominations.")

Second, the policy proposes that a recirculation fee of $5 to $6 per bundle be imposed on banks that deposit currency with the Federal Reserve that is determined to be fit while ordering new currency of the same denomination in the same week. Thus, under the proposed policy, banks will face a possible penalty for returning fit currency to the Federal Reserve, but no penalty for returning unfit currency to circulation. This imbalance points toward a degrading of currency in circulation.

<u>The $1 Note</u> We understand that the Board's Proposed Recirculation Policy now excludes $1 notes. But we are concerned by what appears to be the Board's warning that if substantial recirculation of the $1 bill by banks does not occur in the next two years, the recirculation policy will be applied to one-dollar notes. Either way, we see the Proposed Policy leading to a decline in the quality of circulating one dollar notes; and a decline in the quality of circulating one-dollar notes will have substantial adverse effects on the vending industry.

Finally, we cannot let this opportunity pass without advocating, once again, replacement of the antiquated one-dollar note with the onedollar coin. We understand that about 45% of all currency in circulation is one-dollar notes. Thus, many of the problems and costs that the Federal Reserve System and commercial banks face in keeping up with the flood of currency could be eliminated or substantially eased by elimination of the one-dollar note.

Beyond the advantages to the nation's banking system that the $1 coin would have over the $1 bill, our members, and the millions of Americans who patronize our members' vending machines everyday, would greatly benefit from a circulating one dollar coin. The $1 coin would stimulate sales and reduce costs in our industry.
Further, the American taxpayer would benefit from this adjustment to our coin/ currency system: The General Account Office, in April, 2000, estimated that replacing $1 notes with $1 coins would save the U. S. Treasury an average of $522 million a year over the next 30 years.

In conclusion, NAMA is concerned that adoption of the Proposed Currency Re-circulation Policy will degrade the quality of circulating currency to the detriment of the food and beverage vending industry and that insufficient consideration has been given to this effect. NAMA requests that the Board of Governors of the Federal Reserve System, before implementing this policy, study the effects it will have on the overall quality of circulating currency and the impact it will have on the automatic merchandising industry.

We thank the Board of Governors for this opportunity to comment on its proposed Currency Recirculation Policy and we wish to express our appreciation to the Board for the important role it has played in supplying coin and currency to our industry over the years.